

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 15217
ORDER NO. R-13932**

**APPLICATION OF APACHE CORPORATION FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 30, 2014 at Santa Fe, New Mexico, before Examiner Phillip R. Goetze.

NOW, on this 13th day of November, 2014, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.
- (2) Case Nos. 15217 and 15218 were consolidated at the hearing for the purpose of testimony; however, separate orders shall be issued for each case.
- (3) In Case 15217, Apache Corporation ("Applicant" or "Operator"), seeks an order pooling all uncommitted interests from the surface to the base of the Abo formation in the SE/4 NW/4 of Section 2, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, to form a standard 40-acre oil spacing and proration unit (the "Unit") for all formations or pools spaced on 40 acres within this vertical extent which presently include, but are not necessarily limited to, the House-Blinebry Pool (33230), House-Tubb Pool (78760), House-Drinkard Pool (33250), and House-Abo Pool (33210)
- (4) The unit is to be dedicated to the following wells:

- a. Applicant's Pinot Well No. 3 (API No. 30-025-41865; the "proposed well"), to be drilled at a standard location 1650 feet from the North line and 2310 feet from the West line (Unit F) of Section 2.
- b. Applicant proposed Pinot Well No. 6 (API No. 30-025-41868; the "proposed well"), to be drilled at a standard location 2310 feet from the North line and 1650 feet from the West line (Unit F) of Section 2.

(5) The proposed oil wells are within the House-Blinebry Pool, (Pool code 33230), House-Tubb Pool, (Pool code 78760), House-Drinkard Pool, (Pool code 33250), and House-Abo Pool, (Pool code 33210) which are governed by statewide Rule 19.15.15.9A. NMAC, which provides for standard 40-acre units, each comprising a governmental, quarter-quarter section.

(6) Applicant appeared at the hearing through counsel with affidavits that presented evidence to the effect that:

- (a) Applicant provided proposal letters sent to the locatable, uncommitted mineral interest owners;
- (b) Applicant provided notice of publication in a newspaper of general circulation in the county in which the property is located for the unlocatable interests;
- (c) Applicant identified the Pinot Well No. 3 to be the first well to be drilled; and
- (d) granting of the application for compulsory pooling will not impair correlative rights, will conserve resources and will prevent waste.

(7) No other party appeared at the hearing or otherwise opposed the granting of this application.

The Division concludes that:

(8) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(9) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed wells to a common source of supply within the Unit at the proposed location.

(10) There are interest owners in the Unit that have not agreed to pool their interests.

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(12) Apache Corporation should be designated the operator of the proposed wells and the Unit.

(13) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the proposed wells.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month, per well, while drilling and \$750 per month while producing, per well, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Apache Corporation, all uncommitted interests, whatever they may be, from the surface to the base of the Abo formation in the SE/4 NW/4 of Section 2, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, are pooled to form a standard 40-acre oil spacing and proration unit (the "Unit") for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the House-Blinebry Pool (33230), House-Tubb Pool (78760), House-Drinkard Pool (33250), and House-Abo Pool (33210).

(2) The Unit shall be dedicated to the following wells:

- a. Pinot Well No. 3 (API No. 30-025-41865; the "proposed well"), to be drilled at a standard location 1650 feet from the North line and 2310 feet from the West line (Unit F) of Section 2.
- b. Applicant proposed Pinot Well No. 6 (API No. 30-025-41868; the "proposed well"), to be drilled at a standard location 2310 feet from the North line and 1650 feet from the West line (Unit F) of Section 2.

(3) The operator of the Unit shall commence drilling the first of the proposed wells on or before November 30, 2015, and shall thereafter continue drilling the proposed well with due diligence to test the Abo formation.

(4) In the event the operator does not commence drilling one of the proposed wells on or before November 30, 2015, Ordering Paragraph (1) shall be of no effect,

unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) If neither of the proposed wells is drilled and completed within 120 days after commencement of the first well, or both of the proposed wells are abandoned, then Ordering Paragraph (1) shall be of no further effect, and the unit created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed wells for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of both of the proposed wells and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the Unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(7) Apache Corporation (OGRID 873) is hereby designated the operator of the wells and the Unit.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping each proposed well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs, for each well, within 90 days following completion of the proposed wells. If no objection to the actual well costs, for each well, is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs for each of the proposed wells, any pooled working interest owner who has paid its share of

estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production from each well:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(14) Reasonable charges for supervision (combined fixed rates) for each of the wells are hereby fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*" The operator is authorized to withhold from production, from each proposed well, separately the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Paragraphs (12) and (14) above, all proceeds from production from the proposed wells that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 70-8A7-8A-28, as amended).

(16) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this Order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this order shall thereafter be of no further effect.

(18) The operator of the wells and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this Order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Jami Bailey".

JAMI BAILEY
Director